Newfoundland Labrador

Department of Finance

Government Money Purchase Pension Plan Committee

2009 Activity Report

JUNE 2010

Table of Contents

Message from the Chair 2
Overview 3
Mandate 4
Lines of Business 4
Vision 4
Values 4
Primary Clients and Stakeholders 4
Mission 5
Key Statistics 5
Administration Costs 5
Membership Status 5
Financial Highlights 6
Market Value 6
Portfolio Asset Mix 7
Investment Performance as of December 31, 2009 7
Activities 8
Issues 8
2009 Objective 8
2009 Results 9
2010 Objective 9
Highlights of 2009 10
Challenges Ahead 10
Plan Member Education 10
Evaluation of Default Investments 10
Contact Information 11

Government Money Purchase Pension Plan
Administration Committee
P.O. Box 8700
St. John's, NL
A1B 4J6

Honourable Thomas W. Marshall, Q.C.
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Marshall:

As the Chair of the committee responsible for the Government Money Purchase Pension Plan (GMPP), I hereby submit the 2009 Annual Report for the Committee. The report was prepared under my direction and my signature below is indicative of the committee's accountability for the results contained herein.

The GMPP Committee's mandate is to administer the GMPP including the appointment of an administrator/custodian, setting investment policy and monitoring plan performance.

The GMPP is a capital accumulation plan, that is, retirement benefits are directly related to the amount of contributions and the income earned on those contributions throughout a plan member's career. As investment growth is critical to retirement security in this type of plan, members have been given the option to choose the fund or combination of funds that best suits their individual retirement objectives, within personally acceptable risk tolerances. The difficulty however, is engaging members in the fund selection process. This has become the main strategic issue for the GMPP Committee, and based on experience, plan members have been reluctant to make any investment choice, and instead are allowing their funds to be directed to the low risk, low return default investment. Employees should be aware of both the potential risks and rewards of making an active decision and the possible impact of their return goals.

During 2009, a bill amending the *Government Money Purchase Pension Plan Act* was passed in the House of Assembly. The intent of the amendments was to reflect the current administration of the plan and to ensure consistency with the provisions of the *Pension Benefits Act* and the *Income Tax Act* (Canada). There were also some minor benefit changes, the most notable being a provision for employees under the act to contribute to the plan in respect of periods of approved leaves of absence, with the employer matching those contributions.

This annual report outlines the activities of the GMPP and the growth in assets and membership during 2009.

I am pleased to submit the 2009 Annual Activity report for your consideration.

Yours sincerely,

Laurie Skinner

Laurie Skinner
Chair of the GMPP Committee

OVERVIEW

The GMPP Committee was established by the Lieutenant-Governor in Council to oversee the operations of the Government Money Purchase Pension Plan. Employer representatives are appointed by virtue of their positions in government, while employee representatives are appointed based on the recommendation of the various unions. Committee members are responsible for ensuring that contributions accumulated to an employee's credit are invested prudently in the investment classes prescribed by the Committee and educating employees on the importance to their retirement planning of taking an active interest in their investments.

Government Money Purchase Pension Plan Committee Members
(as of December 31, 2009)

Government and Employer Representatives:	
Laurie Skinner, Chairperson	Assistant Deputy Minister, Financial Planning and Benefit Administration, Department of Finance
Maureen McCarthy	Director, Pension Administration
William Noftall	Manager, Pension Benefits
Noreen Holden	Retired/Director, Human Resource Development & Services
Brian Shortall	Executive Director, Newfoundland and Labrador School Board Association
Rick Hindy	Manager of Budgeting
Michael Rickert, Secretary	Departmental Program Coordinator
Employee Representatives:	
Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Steve Brooks	Newfoundland and Labrador Teachers' Association
Sharon King	Association of Allied Health Professionals
Dawn Learning	National Representative, Canadian Union of Public Employees
Alice Mannion	Newfoundland and Labrador Nurses' Union

The financial security of plan members depends on a member's investment decision, which, in turn, depends on a member's investment profile and risk tolerance. It is critical that members take an active interest in their portfolio and make asset allocation decisions suited to their risk tolerance and retirement expectations.
To facilitate prudent investment decisions by members the Committee has established and implemented a Statement of Investment Policies and Procedures which provides investment options to members including Guaranteed Investment Accounts and market based funds, namely, an equity fund, a bond fund, a global equity fund and a balanced fund.

To assist in fulfilling its mandate to educate plan members, the GMPP Committee has retained the services of Great West Life Assurance Company who fulfills the roles of both the custodian and administrator of the GMPP. The Committee also retains an investment consultant, Russell Investments to assist the Committee in the design, implementation, and ongoing evaluation of all aspects of the pension investment program.

Phillips, Hager & North Investment Management Limited (PH&N) has been retained to manage all market based investment products and Mercer, on an "as needed" basis, provides advice on various pension issues relating to compliance with pension legislation and the *Income Tax Act*.

MANDATE

The Committee's mandate, pursuant to the *Government Money Purchase Pension Plan Act,* is to administer the GMPP, including appointing an administrator/custodian, setting investment policy and monitoring plan performance.

LINES OF BUSINESS

Ensure that contributions accumulated to the credit of the employee are invested prudently in the investment classes prescribed by the Committee and to promote the plan and educate employees on the importance of taking an active interest in their investments.

VISION

The vision of the GMPP Committee is that all participating employees, using guidelines presented to them by the plan custodian, select an investment strategy suited to their retirement objectives with the ultimate goal to maximize the amount of pension funds available at retirement, but with a reasonable level of risk.

VALUES

Inclusion: Each Member of the GMPP Committee acknowledges each others' views and perspectives and has the right/opportunity to express their own.

Independence: Each member, while representing the interest of diverse stakeholders, recognizes that the decisions of the GMPP Committee are in the best interest of all stakeholders.

PRIMARY CLIENTS AND STAKEHOLDERS

The primary clients and stakeholders for the GMPP Committee are the employees who participate in the plan.

MISSION

Consistent with its vision of engaging employees in the investment decision making process, the Committee's mission is to improve employee's participation in the investment selection process. Currently, less than 50 per cent of members make an active investment decision with respect to the funds they are contributing to the GMPP. Ideally, by 2010, the committee would like to see a significant number of members make an active decision with respect to their funds.

By 2010, the committee would like to see at least 75% of members make an active decision with respect to their funds.

Measures: More plan members making an investment choice

Indicators: Percentage of members making an active investment decision is increasing

KEY STATISTICS

Administration Costs – December 31

	2009	***2008***
Investment Management Costs (PH&N)	$ 223,763	$ 219,703
Russell Investments	14,000	14,000
Annual Pension Plan Registration	7,500	7,500
Support Staff	42,886	36,574
Total Administration Costs	$ 288,149	$ 277,777

Since the inception of the GMPP in 1989, pension consulting and support staff costs have been paid from employer contributions that are forfeited when members who are not vested terminate from the plan and take a refund of their contributions. The balance in the forfeitures account was $1,496,148 as of December 31, 2009 as compared with $1,169,571 as of December 31, 2008.

Investment management fees for Philips Hager North, which are based on the total plan assets under management, are charged directly to the plan member from investment earnings.

Membership Status

Plan membership has increased from 28,410 accounts in 2008 to 29,184 accounts in 2009. The number of accounts includes both active participants and terminated employees who have left their funds on deposit with Great West Life. Of the total number of accounts, 13,345 are members who contributed during 2009. Commencing in 2004, efforts were made to contact many of the account holders to

advise them of their transfer options should they wish to move their funds from the plan. The following table details the change in membership from 2008 to 2009.

	2009	2008
Membership, January 1	28,410	26,889
Additions		
Enrolments during the year	3,479	3,578
Less: Exits		
Terminations	2,558	1,931
Death Benefits	34	25
Retirements	113	101
	2,705	2,057
Membership, December 31	**29,184**	**28,410**

FINANCIAL HIGHLIGHTS

Market Value

Employee contributions for the year totalled $11.7 million of which $275,000 were Additional Voluntary Contributions (AVC's). Plan members may deposit additional funds (AVC's) to the plan, subject to RRSP limitations under the *Income Tax Act*. These AVC's are not matched by the employer. An additional $95,000 was transferred in to the GMPP from other pension plans. Employer contributions for the year totalled $11.5 million and investment income was $26.4 million. Statement of changes in Assets for the year ended December 31, 2009 is shown below:

Statement of Changes in Assets for the Year Ended December 31

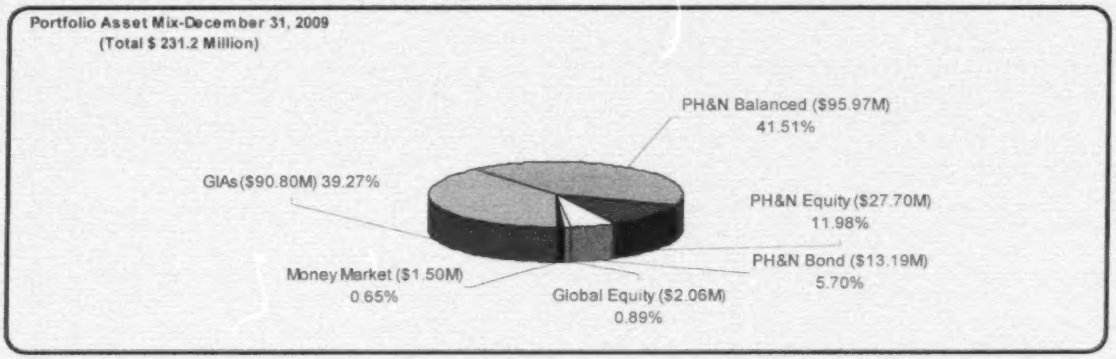
(Market Value)

	2009 ($Millions)	2008 ($Millions)
Opening Balance, January 1	**202.2**	**$226.2**
Contributions to the Plan	23.2	20.8
Investment Income	26.4	(25.9)
Current change in market value of investments	0.6	0.9[1]
Total Additions	**50.3**	**(4.2)**
Refunds to Terminating Plan Members	21.0	19.5[1]
Administration Costs	0.3	0.3
Total Deductions	**21.3**	**1.8**
Net change in assets	28.9	24.0)
Market Value, December 31	**$ 231.2**	**$ 202.2**

1) Transfers to other plans of $18 million for 2008 that was originally reflected in "Current change in Market Value of Investments" in 2008 has been moved and is included in 2008 "Refunds to Terminating Members"

Portfolio Asset Mix

Based on the asset decisions of plan members and the direction of the employer's share to the balanced fund, the asset mix of the portfolio as of December 31, 2009 is illustrated in the following chart:



Investment Performance as of December 31, 2009

The following table details the performance of the GMPP market based funds to December 31, 2009:

Government Money Purchase Pension Plan (GMPP)
Summary of Investment Returns as at December 31, 2009
with Benchmark comparisons

Investment Options	Three Months %	Twelve Months %	Four Years Annualized % p.a.	Ten Years Annualized % p.a.
Balanced Pension Trust	1.8	20.4	2.9	4.6
Benchmark*	1.7	16.3	2.9	4.0
Canadian Equity Fund	3.4	36.2	2.6	7.8
S&P/TSX Composite Index	3.9	35.1	3.9	5.6
Bond Fund	0.2	10.2	5.4	7.2
Dex Universe Bond Index	-0.2	5.4	4.9	6.7
Global Equity Fund	1.5	14.2	-2.2	-
MSCI World ex Canada Index	1.6	9.5	-2.7	-3.6

* Current benchmark composition: 35% S&P/TSX Capped Composite Index, 25% MSCI World ex Canada Index, 35% Dex Universe Bond Index, 5% Dex 30-Day T-Bill Index.
Note: All performance data is shown on a gross or "pre-fee" basis. Fees for 2009 were approximately 16 basis points

Asset Mix and Fund Performance information was extracted from the December 31, 2009 PH&N Fund Management Report

With Canadian and international investment markets recovering from the global financial crisis, 2009 proved to be one of the most favourable years in the history of the GMPP. All the PH&N market based funds exceeded the relevant index. The balanced trust outperformed by 4.1%; the Canadian Equity fund by 1.1%; the Bond fund by 4.8% and the Global Equity fund by 4.7%.

ACTIVITIES

Issues

The GMPP was introduced in 1989 to provide a pension for part time employees and full time employees of public sector employers who were ineligible to participate in the full time plans. It is a capital accumulation plan where employee contributions, together with the employer match, are deposited to individual accounts. The employee has the option to allocate these contributions to a variety of investment vehicles including a balanced fund, an equity fund, a bond fund, a global fund and guaranteed investment accounts with various maturities. The amount that will accumulate to the employee's credit and that will be available to provide income at retirement is dependent on the investment option selected by the employee.

With the assistance of the plan custodian, GWL, employees are provided with tools to evaluate their risk tolerances and to assist them in making the best investment choice. Despite efforts to engage them, many employees seem content to let their funds remain in the lower return, guaranteed option. While this may be a suitable investment for certain employees, particularly those who anticipate moving to full time employment, it is evident from the asset mix of the GMPP portfolio that many employees are not seeking advice with respect to their accounts, as it would be expected that there would be a greater allocation to the market based funds that are available.

The Committee has endeavoured to engage employees in the process by offering annual education seminars across the province. Participation in these sessions has been low, but increasing slightly year over year. The main objective is to increase attendance at these seminars, with a long term view to improving investment selection. At some point, if employee interest in their plan does not improve, the Committee may have to look at alternative measures to ensure that the funds are invested in a prudent manner.

Objective:

By December 31, 2009, the number of employees who have made an investment selection will have increased from the previous year.

Measure: Rate of investment selection by members increases.

Indicator: Number of information sessions conducted at locations most beneficial to plan members for the purposes of increasing attendance.

2009 RESULTS

The rate of investment selection increased slightly in 2009, with those employees in the plan making an active investment decision increasing by 2%, from 36% in 2008 to 38% in 2009. The number of members making an active investment decision increased by 697 when compared to 2008. However, with just over 39% of member assets still in the guaranteed investment accounts, it is evident that most members are not taking an active interest.

One of the main reasons for the slow growth in the numbers of employees making choices is the nature of their employment. Many members work part time and view participation as a temporary situation until they can find full time employment in the public sector and join one of the full time pension plans. Similarly, employers are reluctant to support the various communications initiatives and, due to workplace demands, are unable to give employees the time to attend the annual seminars.

The Committee continued its efforts to encourage employees to attend annual information sessions. A total of 27 sessions were held at locations across the province, with 23 of these held at employer sites. Attendance at this year's sessions increased slightly with 366 employees participating as compared to 284 in 2008, an increase in participation of 29%. Efforts focused on providing sessions in areas with higher numbers of employees and, wherever possible, sessions were held on site at employer locations. If requested, sessions were held after normal working hours. As well, efforts were stepped up to encourage employers to promote the sessions. In several instances, employers took the time to notify each employee in advance of the time and place for each session. Posters were prepared and distributed to all employers for display. On the positive side, based on a survey of those who attended the sessions, 90 % found them very useful .

The committee will continue to evaluate options with respect to improving attendance at these sessions.

2010 OBJECTIVE

By December 31, 2010, the number of employees who have made an investment selection will have increased from the previous year.

Measure: Rate of investment selection by members increases.
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HIGHLIGHTS OF 2009

In 2009, revised legislation governing the GMPP was passed by the House of Assembly, receiving Royal Assent on December 22, 2009. Since the GMPP was implemented in 1989, there have been many changes in the pension industry both from regulatory and tax perspectives, most notably a major overhaul of the federal *Income Tax Act (ITA)* in 1990 and the implementation of a revised *Pension Benefits Act and Regulations (PBA)* in 1997. While the GMPP was subject to and compliant with both the PBA and ITA, many of the provisions of the GMPP required clarification and amendment to reflect this compliance.

Along with these compliance changes, the GMPP was amended to permit employees on periods of authorized leave without pay to contribute to the plan for the period of leave, with the employer matching those contributions. As well, provision was made for employers who participate in any of the other government sponsored plans, most notably the Public Service Pension Plan, to participate in the GMPP.

CHALLENGES AHEAD

Plan Member Education

The primary focus for 2010 will continue to be plan member communication and education. As evidenced by the high percentage of investments in the Balanced Funds and Guaranteed Investment Accounts (GIAs), many plan members are reluctant to make active investment decisions with respect to their accumulated funds. If plan members do not direct their funds to specific investment options, their contributions are directed to GIAs and the matching employer contributions to the Balanced Fund.

In order to encourage plan members to take an active interest in the GMPP, officials of the Department of Finance and Great West Life will continue to offer seminars to all plan members that will focus on educating members on the importance of investment selection as part of retirement planning. These sessions will be scheduled for the Fall of 2010 and the opportunity will again be extended to employers to host the sessions on site at locations most beneficial to plan members.

Evaluation of Default Investments

Another issue under consideration by the Committee is the default investment. Currently when a plan member neglects to select an investment option, the employee's share of the contribution remains invested in the default investment - GIAs. The employer's share is directed to the balanced fund. The Committee, in consultation with its advisors, will be assessing other alternatives, such as target date funds, for the investment of the employee's share, particularly in the case of employee's who have met the vesting criteria under the plan.

CONTACT INFORMATION

1. Great West Life
   London, Ontario
   N6A 4K1

   Telephone: 1-800-724-3402
   Website: www.grsaccess.com

2. Pensions Division
   Department of Finance
   Main Floor, East Block
   Confederation Building
   St. John's, NL
   A1B 4J6

   Telephone: (709)729-3931
   Website: www.fin.gov.nl.ca/fin/pensions

3. Phillips Hager & North Investment Counsel
   Suite 2320, Box 207
   1 Adelaide Street East
   Toronto, On M5C 2V9

   Telephone: 1-(800)-661-6141
   Website: www.phn.com